

SECTION II

CONCEPT OF OPERATIONS

INTRODUCTION TO THE CONCEPT OF OPERATIONS

Legislative Background

The Chief Financial Officers (CFO) Act of 1990 requires federal agencies to improve their financial management and reporting operations by developing an integrated agency accounting and financial system, including financial reporting and internal controls. Such systems have to comply with applicable principles and standards and be able to provide complete, reliable, consistent, and timely information needed to manage an agency's operations.

The Federal Manager's Financial Integrity Act of 1982 and the Federal Financial Management Improvement Act of 1996 require federal agencies to implement and maintain financial management systems that will allow them to prepare financial statements that substantially comply with applicable federal accounting standards. In addition, the National Defense Authorization Act of 1998 requires the Secretary of Defense to submit a strategic plan for improving the Department's financial management. The plan addresses almost all aspects of accounting and finance operations including, for the first time, the feeder systems that provide the majority of the data used by the Department's finance and accounting systems.

Purpose and Scope

The purpose of this Concept of Operations (Concept) is to describe how the Department will structure and manage financial operations in the future to be in compliance with the regulatory requirements discussed above. This Concept describes the Department's accounting and finance requirements and functions and their interrelationships and focuses on the following organizational communities:

- Office of the Under Secretary of Defense, Comptroller (OUSD(C))
- Defense Finance and Accounting Service (DFAS)
- Military Departments and the Defense Agencies: the Army, the Navy, the Air Force and Defense Agencies such as the Defense Logistics Agency (DLA) and the Defense Information Systems Agency (DISA)
- Office of the Under Secretary of Defense Acquisition & Technology (OUSD(A&T)) and Office of the Under Secretary of Defense (Personnel & Readiness) (OUSD(P&R))

The Department will use this Concept to guide the evolution of its financial management policies, systems, functions, and improvement initiatives by specifying the target environment needed to meet regulatory requirements and produce auditable financial statements. Because of the broad scope of the Department's financial operational responsibilities, this Concept will concentrate on the conceptual framework the Department needs to establish to achieve sound financial practice. The appropriate operational and financial management communities may augment this Concept with the specific

operational details, policies, and procedures needed to meet their specific areas of responsibility under this Concept.

Conceptual Framework

This Concept is broadly described by its interrelated functional and infrastructure concepts:

- The functional concept describes the processes or actions that must be performed for financial management
- The infrastructure concept describes the resources that support the functions of financial operations

Figure II.1 illustrates the relationship of the functional and the supporting infrastructure concepts.

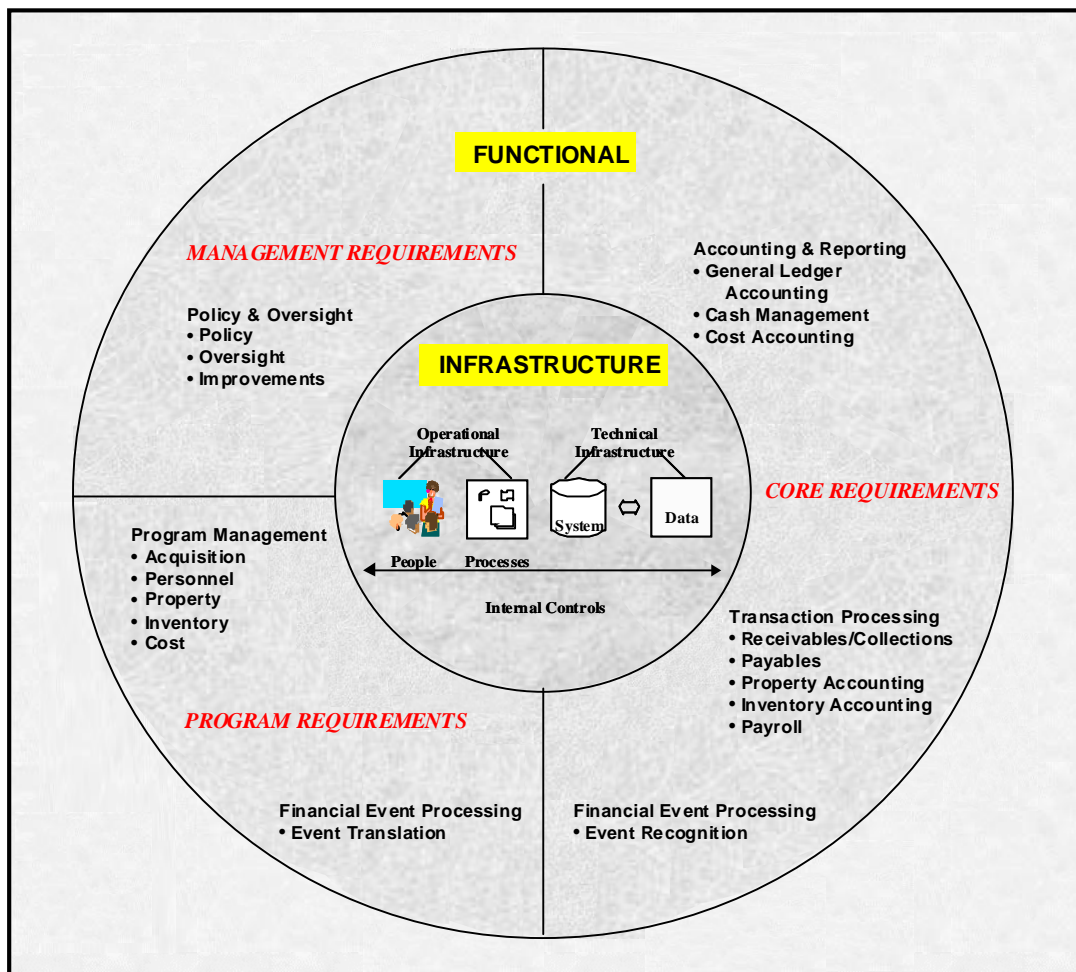


Figure II.1 Functional and Infrastructure Relationship

The management of financial data originates long before an accountant or financial analyst interacts with the data. Financial data begins during a program event resulting from acquiring, managing, allocating, transporting, using, or disposing of any departmental resources by operational commanders and program managers.

A broad definition of financial management includes any action that involves budgeting, tracking, management, oversight, reporting or exchanging of either actual financial data or property, inventory or other resource information that ultimately translates to, or impacts, financial information.

This definition encompasses virtually all of the Department's communities and organizational levels. The communities include accountants and financial analysts, cost and economic analysts, as well as operational commanders and program managers responsible for managing the resources required for the Department's day-to-day operations.

The Concept is an evolving document that looks to the future. As goals are accomplished, objectives met and new requirements emerge, the Department will update the Biennial Financial Management Improvement Plan (Biennial Plan). Although the OUSD(C) ultimately is responsible for revising the Concept for reporting purposes, the entire DoD community is responsible for providing information, where necessary, and striving to achieve this Concept.

**Mission
Statement**

The mission of the Department of Defense financial management community is to provide management and financial services support of defense and national security goals; ensure good stewardship and accountability for public resources; and provide the systems and services that produce accurate, timely, and relevant financial information.

**Vision
Statement**

Respected Department of Defense financial management professionals shaping processes, systems, and technology to provide the most relevant, accurate, reliable, and timely resource management support and financial services for executing the Department's mission. The Department will be nationally recognized for effective and efficient financial management, and will use best practices of the private and public sectors.

FUNCTIONAL CONCEPT

Functional Leaders

The Department is responsible for complying with applicable laws enacted by the Congress and implementing the rules, regulations, and guidelines established by the Federal Government's financial leadership, collectively referred to as the "principals." The principals (i.e. the Department of Treasury, the Office of Management and Budget (OMB), and the General Accounting Office (GAO)) shape and define the requirements for financial compliance.

The principals established the Federal Accounting Standards Advisory Board (FASAB) in 1990 to consider and recommend accounting standards and principles. These principles and standards form the basis for accounting for federal reporting entities and constitute the Federal Generally Accepted Accounting Principles (FEDGAAP).

In addition to the FASAB, the Joint Financial Management Improvement Program (JFMIP) was established to improve financial management practices throughout the Federal Government.

Joint Financial Management Improvement Program (JFMIP)

The JFMIP began the process of defining financial management system requirements by publishing such documents as the Core Financial Systems Requirements and Framework for Federal Financial Management Systems. The requirements and functions outlined in these documents explain the financial processes used in executing government programs and define two categories of requirements needed:

- program delivery/financing requirements
- financial event processing requirements

Program Delivery/Financing Requirements

The first category is the program delivery/financing requirements. These requirements comprise three sets of functions: federal assistance, financing, and government operations. The Department does not generally perform the first two functions, however, it does perform all of the government operations functions.

The JFMIP describes government operations as:

"Functions necessary to run the basic operational activities of the government and to provide services such as law enforcement and national defense, which are non-monetary in nature. Agencies carry out government operations through the use of personnel and/or government supplies, equipment, facilities and contracts with outside parties."

The JFMIP specifies the following functions as necessary for carrying out basic government operational activities:

- personnel
- acquisition
- property management
- inventory management

The Department carries out basic government operational activities through acquiring, managing, allocating, transporting, using, and disposing of DoD resources.

Financial Event Processing Requirements

The second JPMIP category is the financial event processing requirements. The functions associated with these requirements are budget formulation, financial accountability, and transaction tracking. The Department performs all three of these functions. However, the budget formulation function is performed as a part of the Planning, Programming and Budgeting System (PPBS) process and is not considered in this Concept.

The JFMIP specifies the following functions as necessary for carrying out financial accountability activities:

- budget execution
- financial accounting
- cash management
- cost accounting

The JFMIP specifies the following functions as necessary for carrying out transaction tracking activities:

- receivables/collections
- payables/disbursements
- payroll
- travel
- property accounting
- inventory accounting

DoD Financial Management Requirements

The requirements defined by the JFMIP are the basis of the framework for the Department's two financial management requirement categories.

- program financial management requirements
- core financial management requirements

Table II.1 depicts the functions associated with program and core financial management requirements.

PROGRAM FINANCIAL MANAGEMENT REQUIREMENTS		CORE FINANCIAL MANAGEMENT REQUIREMENTS		
PROGRAM MANAGEMENT FUNCTIONS	FINANCIAL EVENT PROCESSING FUNCTION	FINANCIAL EVENT PROCESSING FUNCTION	TRANS-ACTION PROCESSING FUNCTIONS	ACCOUNTING AND REPORTING FUNCTIONS
Acquisition	Event Translation	Event Recognition	Receivables/ Collections- Debt Management	General Ledger
Personnel			Payables- Vendor, Contract, Disbursements	Funds Control
Cost Management			Payroll- Civilian, Military	Cost Accounting
Property Management			Property Accounting	Cash Management
Inventory Management			Inventory Accounting	

Table II.1 Program and Core Financial Management Requirements

The table outlines the DoD program financial management requirements and the DoD core financial management requirements that will be discussed throughout this Concept. The program management functions are similar to the JFMIP government operations functions. The transaction processing functions are similar to the JFMIP transaction tracking functions and the accounting and reporting functions are similar to the JFMIP financial accountability activities.

The Department created the financial event processing function for this Concept to describe the important process of translating program events into auditable financial transactions. Program event information must be recognized within the Department as important financial information. Since approximately 80 percent of the Department's financial data is derived from program feeder systems, the responsibility for the financial event functions is critical to the Department's Concept and to the success of the future financial improvement efforts, especially in program feeder systems.

Financial Management Functions

Figure II.2 on the next page describes the functions performed by organizations within the financial management community. Outside the circle at the top, the Congress, the OMB, the Treasury, the FASAB, and the JFMIP are represented as providers and interpreters of regulatory requirements for financial management. Inside the circle, program management functions, financial event processing functions, transaction

processing functions, and core accounting and reporting functions are described according to a data flow of financial management information.

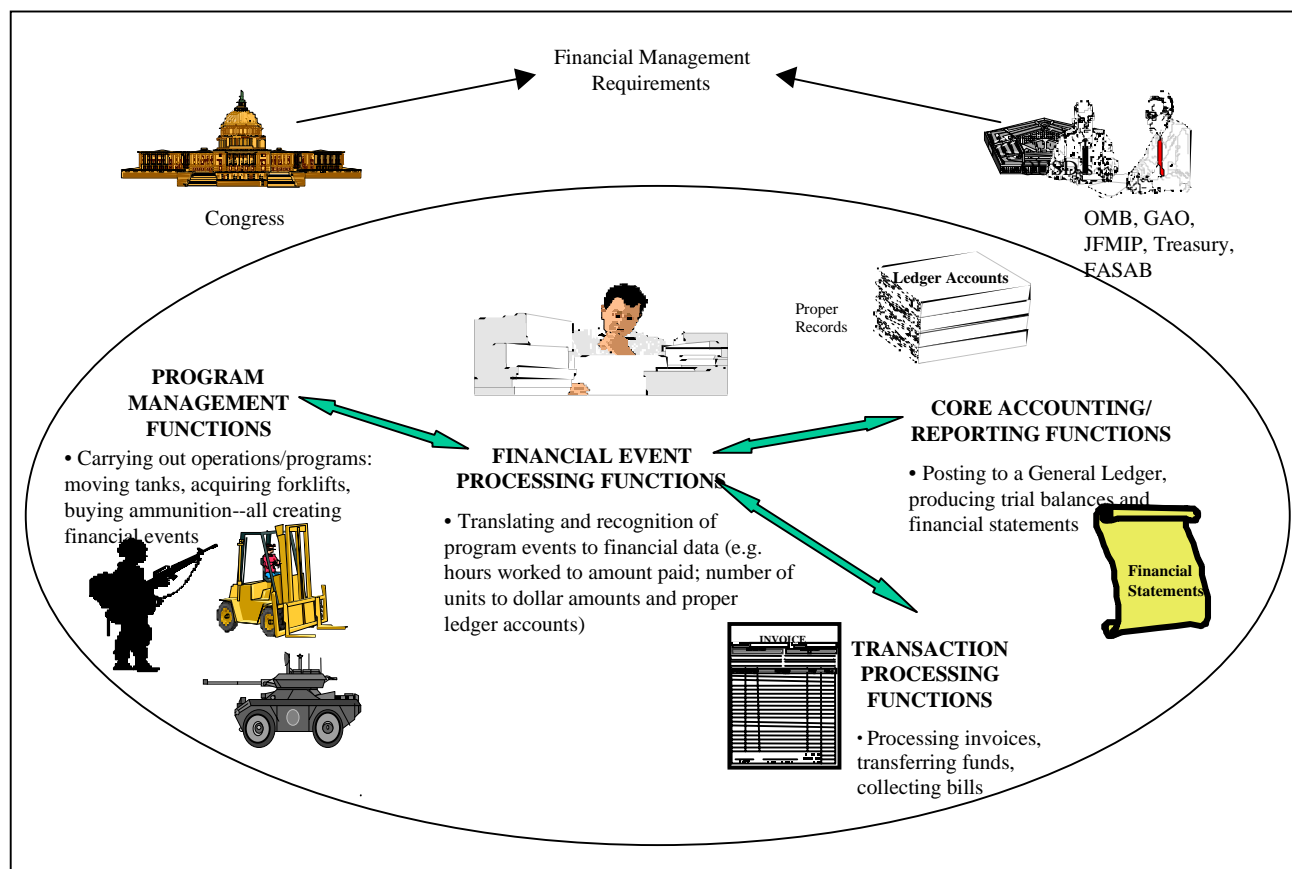


Figure II.2 Financial Management Functions

As seen in the above figure, program and core financial management requirements represent an integrated approach to financial management that relies on operational commanders and program managers to translate program events that result from acquiring, managing, allocating, transporting, using, or disposing of DoD resources into an auditable accounting transaction. It must be possible to reconcile events in program systems that create or support financial information in accounting records, as adequate audit trails need to be maintained to support any reconciliation.

For example, a logistics program may record and track the date and amount of material furnished by the government to a contractor. The contractor could replace parts on an aircraft, return the material to the government in its original state, or dispose of the material. What happens to the material given to the contractor and how the material is used constitutes information that must be recorded in the Department's financial records and summarized in the general ledger.

Figure II.2 also illustrates the interrelationship between program and core financial management requirements and depicts why the Department's financial management framework must contain both the core functions and the specific program function in which the event first occurs.

**Program
Finance
Management
Requirements**

There are two program financial functions that are required for effective financial management:

- program management function
- financial event processing function

The Military Departments and the Defense Agencies perform program management functions anytime they acquire, allocate, transport, manage, use, or dispose of any DoD resource. Program management functions create financial events that must be recorded in financial records.

Many Military Departments and Defense Agencies' program systems provide data to the Department's core accounting and finance systems. These systems are designated as program feeder systems and are integral parts of the financial management environment.

**Five Program
Management
Functions**

There are five major program management functions that provide critical program data to the Department's core accounting and finance systems.

1. Acquisition. The acquisition function is performed to obtain the goods or services required to support DoD programs. Acquisition information is collected throughout all phases of contracting (i.e. selection, writing, administration, payment, reconciliation, and close-out). Acquisition events that occur must be translated into financial events necessary to perform the accounts payable functions. Accounts payable and disbursements cannot be accurately made without the necessary feeder system data from acquisition.
2. Personnel. The personnel function processes time and attendance information and collects and maintains payroll and benefit information about employees' benefits, retirement contributions, and pension plan information. The time and attendance systems also track the labor hours by project for working capital fund (WCF) organizations. Labor hours apply to direct, indirect or general and administrative cost codes used to develop rates for billing customers. Personnel events that occur must be translated into financial events necessary to perform the payroll function. Payroll and cost accounting cannot be accurately performed without the necessary feeder system data from personnel organizations.

3. Cost Management. This function manages cost based on relevant, internal cost measurements that provide information for operational managers and decision-makers to continuously improve operations and gain efficiencies. The cost management function creates information necessary to track the effects of financial events on the cost of performing a certain program or service and to report the full cost of programs and activities. Cost functions are required for operating within the WCF environment for unit cost and fee for service support. In these cases, cost is integrated with the accounting system to provide the required management information and unit cost reports. General Fund operations also utilize cost information for management purposes to determine how efficiently and effectively programs are being administered. This information must be translated into financial information necessary to perform multiple transaction processing functions. The managerial cost accounting functions should be fully integrated to eliminate unnecessary and/or duplication of transactions from the core financial system, acquisition, inventory system, labor distribution system, and property management system.
4. Property Management. The property management function relates to the status of real and personal property, equipment, and facilities (e.g. investment, land, ADP equipment, and government-furnished equipment and material). As property is managed (i.e., purchased, maintained, destroyed or transported), events occur that must be translated into financial events necessary to perform property accounting. Property accounting cannot be accurately performed without the necessary feeder system data from property management.
5. Inventory Management. The inventory management function tracks supplies and their location. As inventory is managed (i.e., received, warehoused, and distributed), events occur that must be translated into financial events necessary to perform inventory accounting. Inventory accounting cannot be accurately performed without the necessary feeder system data from inventory management.

Program
Management
Roles and
Responsibilities

Approximately 80 percent of the Department's financial data is derived from program management functions. Therefore, it is critical that the Military Departments, the Defense Agencies, the OUSD(A&T), and the OUSD(P&R) maintain an accurate inventory of all feeder systems required to provide program data to the Department's financial management systems.

The Military Departments, the Defense Agencies, the OUSD(A&T), and the OUSD(P&R) are responsible for the maintenance of all feeder systems including:

- working closely with the DFAS to identify all feeder systems and that they comply with financial systems criteria

- funding for any upgrades required for transmitting data in the required format
- reconciling information from program feeder systems with information in the general ledger

As the Department accounting and finance service organization, the DFAS is responsible for providing the Military Departments and the Defense Agencies with:

- a description of the program financial event information necessary to create a proper general ledger accounting transaction
- financial system compliance requirements for feeder systems
- corrections to out-of-balance situations from program feeder system reconciliation

Program
Financial Event
Processing
Function

Event translation is one of two financial event processing functions and is considered a program financial management requirement. The other function, event recognition, is a core financial management requirement.

Actions that affect resources (e.g., ordering goods or services, using labor or material resources for maintenance or transferring ownership/stewardship of property or inventory) characterize program financial events. Attributes of program financial events include item descriptions, locations, values, and other data elements. Financial event processing captures program financial event information in an appropriate format to create a general ledger accounting transaction. This translation function is required for all program feeder systems providing financial data to accounting and finance systems.

**Core
Accounting
and Finance
Financial
Management
Requirements**

Core accounting and finance requirements are the central processing functions that perform the basic accounting and financial functions. These requirements are synonymous with taking care of the dollars and are traditionally what a financial management support agency performs. There are three core financial functions that are required for effective financial management:

- financial event processing function
- transaction processing functions
- accounting and reporting functions

Financial Event
Processing
Function

Event recognition is the core financial event processing function that compliments the event translation function in program financial event processing.

Event recognition creates general ledger accounting transactions (i.e., debits and credits) by capturing program financial event information. Event recognition occurs after a financial event has been recognized from a program feeder system. The transactions are recorded under the appropriate standard general ledger account.

Although event translation is a program financial management requirement and event recognition is a core financial management requirement, both are considered financial event processing functions and both must occur because the Department must identify, track, and reconcile program information that is important for financial reporting.

Event translation occurs when information is reported from a program feeder system through standard event identification, which can only happen if the program information has been identified as required financial information that must be posted to a general ledger. This is represented by the first triangle in Figure II.3.

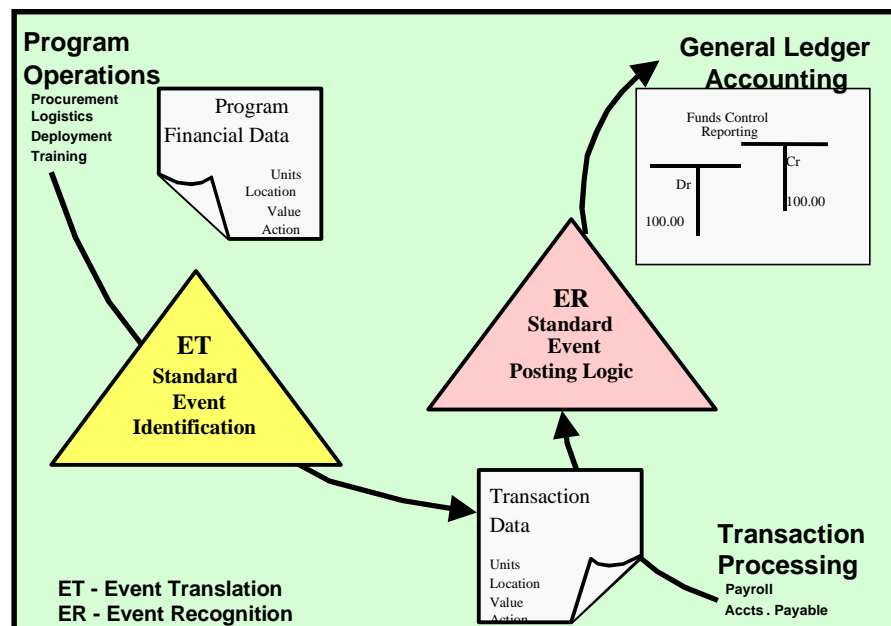


Figure II.3 Event Translation and Recognition

Event recognition occurs as a result of an event translation. Standard event posting logic is used to record the translated program financial event to the general ledger. At this point, the event is recognized in a standard general ledger account, represented in Figure II.3 by the second triangle.

Event recognition must be performed in a general ledger. Output from a program feeder system that creates a transaction for posting is used to enter transactions into a general ledger system. The core accounting and finance system accepts program data (i.e., descriptions, values, etc.), recognizes it as debits and credits, and posts the transactions to a general ledger.

If event recognition is performed in a program feeder system, the program feeder system passes a general ledger transaction in the form of debits and credits to a core system. Performing event recognition in a program system is the method used the least, because program feeder systems do not usually contain (nor are they required to contain) a general ledger.

Core Financial Event Processing Roles and Responsibilities Roles and responsibilities for financial event processing functions are assigned to organizations within the financial management community. The Military Departments and the Defense Agencies have certain roles and responsibilities and the DFAS has certain roles and responsibilities.

As providers of program financial data, the Military Departments and the Defense Agencies are responsible for:

- ensuring accuracy of the program event data and maintaining appropriate audit trails
- providing the required program financial event data in an appropriate format as required by the Department's core financial management functions and systems

Where event recognition is performed in a program feeder system (the system contains a general ledger), the system owner will ensure that:

- the function is performed in accordance with general ledger standards
- the general ledger accounting transactions (debits/credits) are passed correctly to core systems
- an audit trail is maintained

As the Department's finance and accounting service organization, the DFAS is responsible for providing the Military Departments and the Defense Agencies with:

- a description of the program event information necessary to create a proper general ledger accounting transaction
 - the results of event recognition, except in cases when the program feeder system accomplishes the translation
 - assurance that the newly created general ledger accounting transactions are posted correctly, maintaining an audit trail back to the program data that was converted
 - all event recognition functions for the interaction of transaction processing functions and the accounting and reporting functions
-

Transaction Processing Functions

Transaction processing records the results of financial events and consists of financial functions that process payments to DoD personnel, retirees and annuitants, contractors, and record and track funds received by the Department. Transaction processing also keeps detailed records of the accounting for property and inventory. In many instances, transaction processing produces information that must be recorded in numerous reports and information that is transferred back to the personnel or acquisition systems that originated the information. Transaction processing is fully dependent upon the input of information from programs.

Five Transaction Processing Functions

There are five transaction processing functions:

1. Receivables and Collections. The receivables and collections function supports activities associated with billing, tracking, and collecting funds that are owed to the Department. Debt management for military, travel, or contractor pay is considered a receivable.
2. Payables/Disbursements. The payables/disbursements function includes all support activities associated with establishing an obligation of funds, accounts payable, and the disbursing of funds for goods or services rendered. This includes transactions for the payment of goods and services received, travel, and prepayments.
3. Payroll. The payroll function includes civilian, military, and retired and annuitant pay. Payroll functions perform the compensation and benefit activity for civilian and military employees. Time and attendance data resulting from personnel functions and systems that include information, such as address and tax changes, are supported by the Military Departments and the Defense Agencies throughout the Department.
4. Property Accounting. The property accounting function records and controls the financial and accounting components of capitalized property and controlled property. It maintains detailed accounting information concerning fixed assets and other property maintained on an individual basis throughout the life of the asset or property. This function accounts for many types of assets including land, buildings, personal property, contractor held property, and equipment. Property management is translated to property accounting information.
5. Inventory Accounting. The inventory accounting function records and controls the financial and accounting components of inventories related property. Inventory is tangible personal property that is (1) held for sale, (2) in the process of production for sale, (3) to be consumed in the production of goods for sale or in the provision of services for a fee or (4) in-transit. Program management must be able to record inventory at historical costs or latest acquisition costs as required by policies set for

managing inventory. Inventory examples include items such as operating materials and supplies, seized, and stockpiles.

Transaction Processing Roles and Responsibilities	<p>The Military Departments and the Defense Agencies, as well as the DFAS, have certain transaction processing roles and responsibilities.</p> <p>The Military Departments and the Defense Agencies:</p> <ul style="list-style-type: none"> • provide the required program financial event data in an appropriate format as required by the Department's core financial management functions and systems • perform the following activities at installation and defense agency level offices: (1) funds distribution and reconciliation; (2) travel obligations, orders; (3) review collection vouchers, processing receiving reports, and input to civilian and military pay and accounting transactions; and (4) provide general support to DFAS operating locations and centers <p>As the Department's finance and accounting organization, the DFAS</p> <ul style="list-style-type: none"> • performs transaction processing functions (jointly with the Military Departments and the Defense Agencies) and maintains an inventory of all systems • tests compliance requirements for core financial management systems • sets compliance requirements for systems • maintains finance and accounting activity models and operates the required operating and technical infrastructure
---	--

Accounting and Reporting Functions	The accounting and reporting functions account for DoD resources. They show the financial impact of all the Department's financial events. These functions involve, but are not limited to the Working Capital Funds, General Funds, Non-Appropriated Funds, and Security Assistance.
---	---

Four Accounting and Reporting Functions	<p>There are four accounting and reporting functions:</p> <ol style="list-style-type: none"> 1. <u>General Ledger Accounting</u>. The general ledger accounting function provides the ability to track the effects of events by summarizing information into the standard general ledger accounts from transaction driven events. It uses a standardized data format to read the data and post the results through the accounting systems. This function ensures that all events are recorded accurately and by consistent definitions. The results of all financial events must be reported in trial balances and financial statements.
---	---

2. Funds Control. The funds control function records the results of budget execution to maintain and account for appropriations. It can provide reports on the status of funds to the appropriate level, for example the Air Force command level. It also produces reports for budgetary reporting requirements.
3. Cash Management. The cash management function tracks the cash position and provides the necessary reports for managing cash.
4. Cost Accounting. The cost accounting function collects and records costs for management to develop customer billing rates, fees, and pricing structures. Cost accounting can provide managerial information for performance measurement to track, classify, and distribute type costs to cost centers or activity groups.

Accounting and Reporting Roles and Responsibilities

Roles and responsibilities for accounting and reporting functions are assigned to organizations within the financial management community. Both the OUSD(C) the DFAS have certain roles and responsibilities.

The OUSD(C) role and responsibilities require it to:

- establish and supervise the execution of uniform DoD policies, principles, and procedures
- interact with the GAO and the Congress on audits and reporting

The DFAS role and responsibilities require the DFAS to:

- ensure that accounting systems and equations account for the Department's resources
- establish and supervise procedures for accounting and disbursing systems, cash, and credit
- maintain accounting systems including funding for any upgrades required as a result of new or changing financial accounting, requirements, criteria, or standards

Policy and Oversight

This section describes the financial management policy and oversight roles and relationships of the organizations within the financial management community. The primary functions within the policy and oversight requirement include:

- financial management policy development
- oversight, compliance definition, improvements, and reporting

Policy Development	Financial management policy development includes the development of regulations and guidance to ensure the Department's accounting and finance processes, procedures, operations, and resources comply with Federal Generally Accepted Accounting Principles (FEDGAAP) and federal financial standards and systems requirements. Within each successively lower organizational unit, these policies may be augmented with guidance and procedures appropriate to operational requirements.
--------------------	--

Roles and Responsibilities for Policy Development	Roles and responsibilities for policy development are assigned to organizations within the financial management community. The OUSD(C), the OUSD(A&T) and the OUSD(P&R), the Military Departments, the Defense Agencies, and the DFAS each have certain roles and responsibilities.
---	---

The OUSD(C) is the Department's Chief Financial Officer (CFO) and the principal advisor and assistant to the Secretary and Deputy Secretary for budgetary and fiscal matters and is responsible for issuing regulation and promulgating other guidance relating to:

- financial management laws enacted by the Congress
- regulations and other Government-wide financial management principles established by the OMB, the GAO, the Treasury Department, and other entities concerned with financial management such as the Financial Accounting Standards Advisory Board (FASAB)

The OUSD(A&T) and the OUSD(P&R) role and responsibilities are to assess the impact of financial management laws, regulations, guidance, and policies on the applicable functional areas and provide guidance where cross-organizational implementation is appropriate

The Military Departments and the Defense Agencies augment, promulgate, and implement the details of financial management laws, regulations, guidance, and policies within their respective Military Departments and Defense Agencies

The DFAS roles and responsibilities are to:

- assist the OUSD(C) in interpreting existing requirements and developing and implementing new policy and guidance
 - augment and promulgate financial management policy, guidance, and operational procedures from the OUSD(C) for the DFAS and maintain the Department's Financial Management Regulation (FMR) DoD 7000.14R
-

**Oversight,
Compliance
Definition,
Improvements,
and Reporting**

The compliance definition, oversight, and reporting function applies to all financial management systems and tasks. It includes ensuring that the systems used to support financial management meet requirements for processing financial information. All accounting and finance systems must be compliant with governmental regulations as directed by such federal entities as the OMB, the GAO, the FASAB, and the JFMIP.

**Roles and
Responsibilities
for Oversight,
Compliance
Definition,
Improvements,
and Reporting**

Roles and responsibilities for oversight, compliance definition, improvements, and reporting are assigned to organizations within the financial management community. The OUSD(C), the OUSD(A&T) and the OUSD(P&R), the Military Departments, the Defense Agencies, and the DFAS each have roles and responsibilities that must be performed for successful financial management.

The OUSD(C) role and responsibilities are to:

- establish and supervise the execution of uniform DoD financial management policies, principles, and procedures
- advise and assist the Secretary and Deputy Secretary on administration and organization of the contract audit function within the Department
- provide for the design, development, and installation of accounting and finance improvement programs and systems throughout the Department
- guide the education, training, and career development of comptroller and financial management personnel
- convene and chair regular meeting of a DoD Financial Management Steering Committee to facilitate appropriate changes within the Department's financial management community
- develop, maintain, and report on the implementation of the Department's Biennial Plan

The OUSD(A&T) and the OUSD(P&R) roles and responsibilities are to:

- assess the impact of compliance requirements on the applicable functional areas and provide corrective action guidance where cross-organizational implementation is appropriate
- select, implement, and report on financial management improvement initiatives within financial management systems and functions that apply to the Under Secretaries' cross-organizational functional areas such as procurement, logistics, and medical

The Military Departments and the Defense Agencies roles and responsibilities are to:

- assess and report on the compliance of program feeder systems and functions
- assess, track, and report fraud within program feeder systems and functions and initiate appropriate legal actions when necessary
- select, implement, and report on accounting and finance improvement initiatives within the program feeder systems and functions
- review and report material weaknesses on internal controls within program feeder systems and respond to audit findings by identifying corrections to deficiencies

The DFAS role and responsibilities are to:

- provide specific guidance on accounting and finance system requirements
 - assess and report on the compliance of accounting and finance systems and functions
 - provides compliance definition, assessment, and corrective expertise to other DoD organizations
 - track and report on applicable accounting and finance related audit findings for the Department
 - assess, track, and report fraud within the core financial management systems and functions and initiates appropriate legal actions when necessary
 - maintain the Defense Financial and Accounting Activity Process Models
 - select, implement, and report on financial management improvement initiatives within the core accounting and finance systems and functions
 - review and report material weaknesses on internal controls within core financial management systems and core financial management functional areas and responds to audit findings by identifying corrections to deficiencies
-

INFRASTRUCTURE CONCEPT

Operating Infrastructure The Department's financial management operational infrastructure consists of the organizations, personnel, and internal control mechanisms required to manage and account for the Department's resources.

Operating Locations Two separate but integrated financial operational infrastructures meet the Department's need to manage and account for its resources.

The first infrastructure under the control of the Military Departments and the Defense Agencies is aligned with the financial program functions responsible for managing the Department's resources. It begins with the creation of a program event resulting from acquiring, managing, allocating, transporting, using, or disposing of resources by operational commanders and program managers at all organizational levels.

The program financial functions performed by the Military Departments and the Defense Agencies require proximity to the Department's various resources and operations. Therefore, the bulk of accounting and finance resources are expended at DoD installations. The translation of program event information, called event translation, occurs where the event occurs.

The second infrastructure is the Department's primary financial management organization, the DFAS. With the creation of the DFAS, the Department began initiatives to consolidate, standardize, and modernize its core financial management functions. These efforts have led to significant savings and qualitative improvements for the core financial management functions. While the DFAS functions are not necessarily equivalent to the core financial management requirements, there is a strong correlation.

The core financial management requirements performed by the DFAS are transaction and data-driven and can be most efficiently performed at a minimal number of locations. As the number of accounting and finance systems is reduced, the number of separate operating locations necessary to operate the systems is also reduced. As accounting and finance systems become cross-Military Service oriented (e.g., the Air Force and the Army use the same system to process vendor payments) the number of locations supporting functions for a particular Military Department can be reduced. This Concept will not attempt to predict specific future operating locations or staffing levels. The key to determining the optimal number of locations and personnel is for the Department to constantly assess the potential for consolidations and realignment of personnel skills and numbers supporting its accounting and finance functions. Each change should be based on sound cost-benefit business analyses. Decisions related to consolidation should be based on business case assessments. In addition, business assessments may result in outsourcing services to other federal agencies or private industry if

there is a clear economic justification. The DFAS will continue to operate at multiple locations in a configuration that best supports mission cost, reliability, quality, and customer service.

Human Resources

The CFO Act requires that financial management personnel meet certain competencies. This is applicable to personnel at all levels, both military and civilian, and in any organizational component performing financial management functions.

The JFMIP has published guidance on competencies for accounting and finance. Competencies for financial management positions outline the knowledge, skills, and abilities that accountants, budget analysts, and financial managers are recommended to possess at different stages of their career. These competencies can be met through on-the-job training, formal training courses, and professional development activities.

The DFAS must have a program to define key competencies and requirements based on the JFMIP competencies for financial management. The Military Departments and the Defense Agencies' financial management offices will have a comparable program for their financial personnel, military and civilian, tailored to meet their financial management roles and responsibilities. The objective of the programs should be to address professional education, training, and career development as well as ensuring that generic key competencies are developed and maintained throughout the Department's financial community.

Internal Controls

Internal controls are vital to the accurate reporting of information on financial statements and the reliability of this information. Management controls must be integrated into the operating infrastructure to ensure:

- regulations are followed
- programs achieve intended results
- resources are properly utilized
- fraud, waste, and abuse are minimized
- program data is maintained and is accurately reported

The operating infrastructure of the Department's financial management community will plan, design, and implement internal controls by the following methods:

- controlled environment
- risk assessments
- control activities
- relevant and reliable information and communication
- monitoring

The operational infrastructure provides the control environment for internal controls. Regardless of how solid internal controls are in processing systems, an environment of internal controls must also surround the system.

A control environment for internal controls requires personnel to have the correct competencies for their positions as well as the freedom to perform the required tasks with the appropriate amount of oversight.

Management will use strategic planning, forecasting, qualitative, and quantitative methods to identify and assess the risk of the financial management functions. The Department's financial management community will monitor factors affecting internal controls such as new technology.

Control activities will be performed uniformly throughout the financial management community so that they provide the assurance that policies and procedures meet the agency's objectives. Performance measures will be used to link a program's objectives to actual results.

Additionally, information systems, especially those that send financial data to financial management systems, must perform checks and balances such as reconciliation checks to ensure information is correct and to prevent fraud.

Technical Infrastructure	Technology is one of the major forces enabling the Department to achieve the desired cost and quality improvements in financial management. In addition to regulatory requirements for financial management, the Department has developed an information infrastructure and standards to support its information technology needs.
Defense Information Infrastructure	The Defense Information Infrastructure (DII) emphasizes the importance of providing mission critical information including financial services necessary to sustain operations. The DII strategy serves as a framework on which to provide seamless, secure information products and services to DoD users.
Common Operating Environment	The conceptual model for the migration and evolution of DoD systems also includes the establishing a common operating environment (COE). The COE establishes an integrated software infrastructure that facilitates the migration and implementation of functional mission applications and integrated databases across information systems. The DII COE provides a distributed application infrastructure that promotes interoperability, portability, and scalability. This is accomplished by addressing the direct needs of each functional area, as well as the end-user and systems requirements as they continue to evolve. The overall objective of the DII COE is to provide common integrated services that can be shared by the entire DII community.

Joint Technical Architecture The Joint Technical Architecture (JTA) establishes a set of standards, based on a DoD consensus that support seamless operations among DoD information systems. The objective is to enable interoperability among information systems by leveraging technological advancements to satisfy modernization demands for resource sharing and transparency in data format and access. This approach will achieve interoperability across DoD functional areas and command levels, open standards-based systems, and shorter technology insertion cycles by using modular packaging techniques to implement system components.

The DII COE represents a comprehensive DoD-wide framework for developing technical infrastructures. The Department is developing a corporate information infrastructure environment that integrates financial system architectures within the DII COE framework and is compliant with JTA requirements. The architecture includes a corporate database and corporate data warehouse. The corporate information infrastructure will serve the data storage and management needs for all new and reengineered finance and accounting application systems.

This Concept provides a target infrastructure based on the DII COE, the corporate information infrastructure, and major ongoing initiatives. Full implementation of the described architecture and complete rollout of technological improvements depend on ongoing business case assessments. As Figure II.5 on the next page illustrates, the Department's financial management technical infrastructure is based on a conceptual model of systems, system interfaces, data elements, and structures that build upon each other.

Building Blocks The technical infrastructure is composed of following four blocks:

1. System Architecture. The system architecture addresses the utilization of a shared data environment consisting of a corporate database and a corporate data warehouse. The corporate database will be a logically defined database that utilizes standard processes and data elements that supports financial reporting, financial management analysis, prevalidation of disbursements with related obligations, cash accountability, and a global edit capability. It will tie together accounting and transaction processing applications.

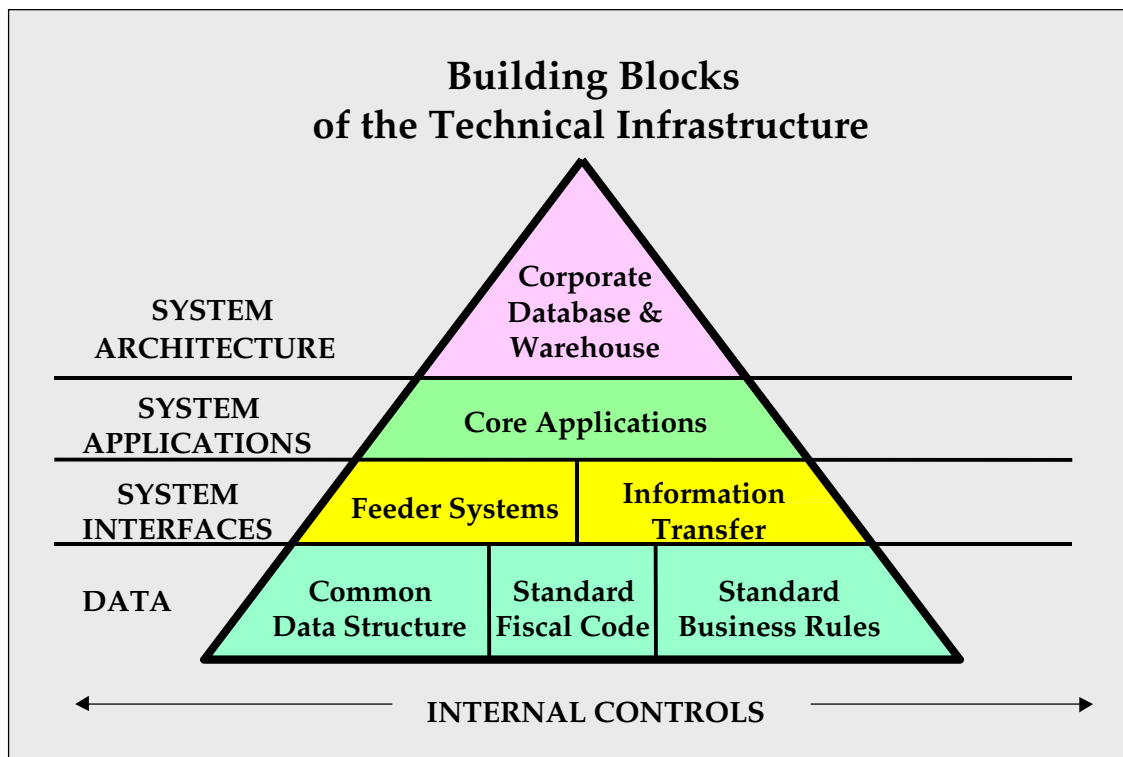


Figure II.4 Technical Infrastructure Building Blocks

By storing all financial data centrally, a corporate database will provide:

- a detail driven United States Government Standard General Ledger (U.S. SGL)
- precise reporting
- accurate cash accountability
- interface medium for all systems
- increased internal controls and an end-to-end audit trail that spans the life of a transaction and all systems used in processing
- near real-time delivery of program management information
- accurate trend analyses and management information

2. System Applications. System Application focuses on the core financial Management requirements of financial event processing, transaction processing, and accounting and reporting functions. Systems that are currently transferring data back and forth between transaction processing systems and accounting and reporting systems should have a central point to gather and standardize the data (the corporate database).

3. System Interfaces. System Interfaces refer to the interfaces between core Financial management systems and program financial management feeder systems and the method of the transfer of information between systems. A

corporate database will meet shared data objectives, incrementally integrating data initiatives while minimizing change to program feeder system applications and interdependencies of initiatives.

4. Data must be read in a common format. All systems and interfaces that use a common data structure will utilize a single physical database structure. This will be used for all new and reengineered applications and interfaces:

- Global Edit Tables (GET) will be used to provide a single reference capability within the accounting and finance network for accumulation and dissemination of standard fiscal code and standard transaction data
- A standard fiscal code will exist and will be an accounting classification structure with standard code values and a single publication source that facilitates the recording of all transactions
- Database rules such as posting of the U.S. SGL or edits for standard transactions, which are common to all financial management system applications, will be stored in a corporate database

The Department will establish a corporate database and corporate data warehouse to help meet systems integration objectives and migratory strategy. Figure II.5 depicts the flow of information to the corporate database.

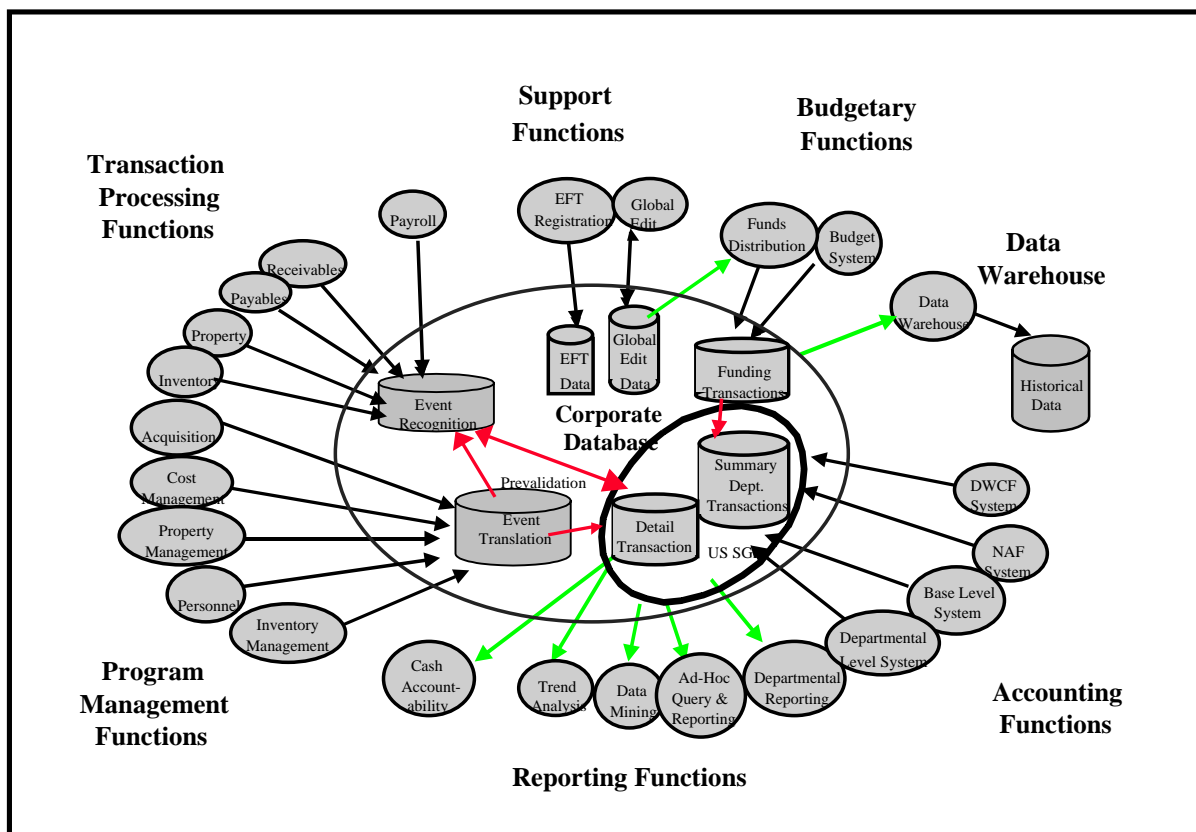


Figure II.5 Corporate Database

The corporate database will be the repository for on-line transaction processing, and contains only standard data and an available audit trail to source data. It will incrementally integrate accounting and finance systems initiatives and minimize changes to legacy applications. This will reduce time, cost, and risk involved in system development and migration to standard interfaces. The corporate database will contain real-time processing information and will resolve delayed information due to the batch processing requirements of multiple stovepipe systems.

System
Architecture

The corporate database will also provide a platform for the integration of common functionality. The corporate database will help eliminate unmatched disbursements (UMD), negative unliquidated obligations (NULO), and problems and time delays associated with prevalidation. All payments disbursed will be posted to the corporate database shared by all systems thus eliminating many types of potential problem disbursements (e.g., intransits and intra-Departmental cross disbursements).

The data warehouse will receive its data primarily from the corporate database. It will be based on a comprehensive and consistent data model, data definitions, and physical database structure. Data in the warehouse will provide documentation for all changes to date, support data analyses and allow for comparisons between periods. The data will be read-only and optimized for queries and reporting.

The corporate database will contain the U.S. SGL and the financial event processing functions. Source documents entered into program feeder systems or accounting systems are fed into the corporate database. The corporate database prevalidates funds internally by comparing the data received from both the program feeder system and the accounting system. Once this information has been pre-validated, it can interface with a transaction processing system to make a payment and disbursement (if necessary).

The reporting of information can also occur from the corporate database because information flows between all systems to a data warehouse. The data warehouse will redirect the flow of all existing interfaces through the corporate databases and allow migration to a standard transaction process.

System
Applications

The systems supporting transaction processing functions and accounting and reporting functions will be reduced to the minimal number per function required to provide the most effective and efficient accounting and finance services possible. Each of the transaction processing functions should be supported by a single DoD system used by all DoD components. For example, payments to vendors, currently performed separately from contract pay, will no longer be customized to each DoD component. Disbursing functions will have a standard input transaction and should produce the disbursement and the appropriate accounting data.

The payroll system will be interrelated with the necessary personnel and time and attendance systems. All interfacing personnel systems should be automated and integrated with the appropriate civilian or military pay system. Systems capacity will then be able to rapidly handle changes in personnel pay status. The personnel or time and attendance systems will support all types of pay events (e.g., promotions and separations).

Property and inventory accounting systems will maintain detailed accounting information concerning fixed assets and other property on an individual basis throughout their life. They will be in a single integrated system used for maintaining accountability for all types of property, plant, and equipment that will allow for daily actions, such as transfer of property to be reported to general ledger accounts. This will reduce the amount of manual reconciliation and avoid updating component unique systems.

The systems used for accounting and reporting functions provide the overall accountability infrastructure. The Department will operate with standard DoD-wide systems for general funds and working capital funds. This will not occur until consolidation to a standard software suite by component. As a result, the number of component unique program feeder systems, such as those reporting property management information will be reduced. Defense departmental reporting will use one standard departmental reporting system. Treasury reports will then be produced using the U.S. SGL from this system. The production of CFO financial statements will be consolidated, as will the Department's fiduciary responsibilities.

Funds control systems must ensure that spending does not exceed funds appropriated or authorized. It will support the relationships between budgetary accounts in the general ledger. Budgetary reporting information will come from the same system as the accounting reports.

Although the DFAS is responsible for the majority of the Department's accounting and finance systems in the target architecture, the DFAS is not responsible for all of the systems that produce financial data and feed information to the Department's corporate database. Systems that support program functional areas, including acquisition, medical, logistics, and personnel, originate and process a significant amount of financial data that is ultimately reported on financial statements. Valid data from these program feeder systems are imperative for the production of financial statements that must be validated and auditable to their source.

System Interfaces

The interface strategy is to:

- separate data from applications
- migrate to standard transactions

- redirect the flow of all system interfaces through the corporate database
- simultaneously convert the interface data using edit tables and standard data structures
- reduce time, cost, and risk involved in system development

Information transfer will provide seamless, efficient, and transparent information exchange services for data applications and will encompass local and wide area networks. While communications connectivity may be transparent to the functional users, its integration represents the structure upon which DoD financial services reside. Cross-functional interoperability results from the integration of functional area information infrastructures (e.g., finance, logistics, personnel) into the DII shared data environment. This integration enables easy exchange of information among functional areas.

Electronic data interchange (EDI) technology will be fully implemented into the vendor and contract pay systems. The EDI, electronic commerce (EC), and electronic funds transfer (EFT) provide standard methods for accurate, reliable, and timely computer-to-computer exchange of all business transactions including financial information and funds. Although not new to the Department, the use of EDI will continue to make maximum use of electronic data for the paperless processing of business-related transactions.

Building on the computer-to-computer exchange of business transaction concept, the Department will continue to develop web-enabling applications that allow for transmission of free form data on the Internet.

Electronic document management (EDM) and electronic document access (EDA) provide the Department with the opportunity to receive and process documents electronically. These two systems, working together, will reduce the dependency on paper especially for contract and vendor payments. EDM/EDA can be expanded to virtually any documents that are used in high volume and offers the opportunity to store and retrieve contract documents electronically, thus reducing the need to print, mail, file, and manage paper. Designed to integrate with other electronic document initiatives, EDM/EDA will be a DoD-wide virtual file cabinet. Authorized users using Internet tools from nearly any location can access these electronic documents.

Data

The standardization of financial and other data will exist through the use of a DoD-wide data dictionary, which includes standard accounting and finance data elements. Data standardization incorporates formats of mutual interest and promotes increased use of capabilities such as electronic transfer of payments. The Department will have standardized data through a common accounting classification data structure and general ledger account codes.

A common accounting classification data structure will be required. The structure with its subordinate elements and codes is the language used to

capture, store, manage, and report financial information. The data structure will be the official common language for inter-relating programming, budgeting, accounting, and manpower. The common accounting classification data structure is expected to be implemented in core financial management systems where business case analyses justify the investment.

General ledger account codes will be used as a way of standardizing transaction processing for the U.S. SGL. The CFO Act requires such accountability and the Department will work diligently to comply with the requirement. The Department will standardize general ledger account codes so that cross-walking transactions between the separate general ledgers will not be necessary.

Internal Controls

The technical infrastructure will address internal controls in the following areas:

- control environment
- risk assessment
- control activities
- information and communication
- monitoring

Technological developments, disruption of information systems processing, and changes from manual to automated procedures will continue to be high risk factors that require internal controls. The control environment for the technical infrastructure requires that personnel must have the key competencies to perform their duties before interacting with financial management systems. Management must be able to assess the technical infrastructure to determine the proper amount of responsibility to delegate.

Computer controls will exist to check data accuracy, completeness, and the appropriate authorization of transactions. An automated information system (AIS) security program will integrate available security capabilities (i.e., strong identification and authentication, secure certification authority workstation, electronic signature, encryption, and internet management software) for all systems. The AIS program will implement safeguards to protect systems from an intentional or unintentional modification of data.

A Public Key Infrastructure (PKI) is a portion of security management that will aid in the process of encryption of data. An individual will have a “private key” that signifies that any encrypted message is authored by a single entity (that person in possession of the private key). Any individual wishing to read the encrypted message must be in possession of a “public key” to decode the original message. Any attempt to modify the document without the original “private key” will result, through various automated embedded processes, in a recognizably modified document. Utilization of a PKI is

becoming increasingly important with the move toward networked environments where communications and transactions occur over unsecured channels. Additionally, as the Department and the Federal Government fully employ paperless contracting, cryptography will need the support of a PKI to ensure confidentiality and integrity (including digital signatures) of data transmission.

Data mining is a process used for fraud detection and prevention. Fraud detection is required to minimize theft of the Department's financial assets. Data mining is conducted by collecting and analyzing large volumes of data. An analysis of data anomalies is performed in search of indicators sufficient to warrant investigation and to identify possible individual intrusion into financial systems for illegal personal gain. Areas of focus include validation of:

- vendor payments
 - military, civilian, and retired and annuitant payrolls
 - transportation payments
 - payment system intrusion
-

SUMMARY

This section described the conceptual framework the Department needs to establish for sound financial operations. The framework is based on a functional concept and an infrastructure concept.

- The functional concept described the processes or actions that must be performed for financial operations. It discussed the program financial management requirements consisting of program management functions and financial event processing function. It then discussed the core financial management requirements consisting of financial event processing function, transaction processing function, and accounting and reporting function. It points out the importance of the financial event processing function, which is both a program and a core financial management requirement.
- The infrastructure concept described the resources that support the functions of accounting and finance. It discussed the location, human resources, internal controls, and technical structure needed to support accounting and finance operations. The technical structure was based on using the cutting edge technology of a corporate database and data warehousing to support the vast amounts of financial management data supporting the Department.

This Concept described roles and responsibilities for the following organizations, all part of the Department's financial management community:

- The Office of the Under Secretary of Defense, Comptroller (OUSD(C))
- The Defense Finance and Accounting Service (DFAS)
- The Military Departments and the Defense Agencies: the Army, the Navy, the Air Force, and the Defense Agencies such as the Defense Logistics Agency (DLA) and the Defense Information Systems Agency (DISA)
- The Office of the Under Secretary of Defense Acquisition & Technology (OUSD(A&T)) and the Office of the Under Secretary of Defense, Personnel & Readiness (OUSD(P&R))

The Department will use this Concept to guide the evolution of its accounting and finance policies, system, functions, and improvement initiatives by specifying the target environment needed to meet regulatory requirements, as well as provide reports necessary to Department leaders to make informed decisions.
